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INTERCO INCORPORATED

58th

ANNUAL REPORT

1969

Profile of the Company

Apparel

CAMPUS SWEATER AND SPORTSWEAR COMPANY
Cleveland, Ohio

COWDEN MANUFACTURING COMPANY
Lexington, Kentucky

Department Stores

CENTRAL HARDWARE COMPANY
St. Louis, Missouri

P. N. HIRSCH & COMPANY
St. Louis, Missouri

SAM SHAINBERG COMPANY
Memphis, Tennessee

Footwear

THE FLORSHEIM SHOE COMPANY
Chicago, Illinois

INTERNATIONAL RETAIL SHOE COMPANY
St. Louis, Missouri

INTERNATIONAL SHOE COMPANY
St. Louis, Missouri

SAVAGE SHOES LIMITED
Preston, Ontario, Canada

1969 Annual Report
INTERCO INCORPORATED

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Annual Meeting of Stockholders

will be held at 10 a.m. on March 9, 1970
at the Company's General Offices,
1509 Washington Avenue, St. Louis, Missouri

interco
INCORPORATED

Highlights of the Year

FISCAL YEARS ENDED NOVEMBER 30,	1969	1968	CHANGE
Net Sales	$706,098,141	$669,456,035	+ 5.5%
Earnings before Federal and Foreign Taxes	49,359,559	46,762,695	+ 5.6%
Net Earnings	25,417,730	25,087,844	+ 1.3%
Less Dividend Requirements on Preferred Stock	2,623,000	2,661,000	
Net Earnings Available for Common Stock	22,794,730	22,426,844	+ 1.6%
Working Capital	209,392,014	204,002,036	+ 2.6%
Stockholders' Equity	209,737,534	196,851,940	+ 6.5%
Per Share of Common Stock:			
Primary Earnings	3.14	3.12	+ 0.6%
Fully Diluted Earnings	2.69	2.65	+ 1.5%
Dividends	$1.00	$0.90	+11.1%
Average Shares of Common Stock Outstanding	7,268,609	7,180,071	
Number of Stockholders	15,150	15,100	
Number of Employees	37,600	38,200	

To Our Stockholders:

MAURICE R. CHAMBERS

The year 1969 was one of continued progress for INTERCO INCORPORATED with sales and earnings reaching a new high for the sixth successive year.

This marked the sixth year since the company began its program to broaden and strengthen the base of operations with its move into the apparel and department store fields. In this period sales have more than doubled and earnings per share are over three and one half times greater.

Important contributions to the steady growth in the company's sales and earnings have been made by the apparel and department store groups confirming the fact that we have acquired strong, well established businesses with aggressive and capable management. They have fully met our expectations. The company's timely decision six years ago to diversify has been well rewarded by the outstanding performance of these new groups.

The three major operating groups—Apparel, Department Stores and Footwear—all reported higher sales with particularly significant gains being made by the department stores group.

Record high earnings were established by the apparel and department stores groups as well as by the retail divisions of footwear. The manufacture of popular-priced footwear in 1969 reflected the sluggishness which prevailed generally throughout the industry. This condition was largely attributable to imports of foreign-made footwear and to the lack of an acceptable fashion trend in women's styling.

In addition, there was a decline in demand for the hand sewn shoes produced in Puerto Rico. This became apparent early in the year and appropriate action has been taken. The Puerto Rican operations, which have made significant contributions to earnings over the past several years, operated at only a break even basis in 1969.

The Florsheim Shoe Company maintained its dominant position in the men's high grade shoe market with another record year of sales at the manufacturing and retail levels.

The increased demand for Florsheim shoes—both men's and women's—required the opening this year of five more shoe manufacturing plants and an expansion of its warehouse and distribution center. In addition, a record number of Florsheim Men's Shops and Thayer McNeil Women's Shoe Salons were opened. All starting costs relating to the opening of these added facilities were absorbed in 1969.

Elsewhere in this report you will find comments on each of the major operating divisions highlighting significant developments in their activities for the year just closed.

In view of the general economic conditions that developed during the year, our programs to reduce costs and to increase inventory turnover were accelerated. Prime attention is devoted to these matters as well as to budgetary control and forecasts in regular monthly meetings of our Operating Board, which includes the presidents of each of the company's nine major operating divisions. Their efforts in this direction have been most effective and economies are being achieved in all divisions of the company.

The business of INTERCO INCORPORATED is comprised principally of consumer oriented products which are basic necessities to the expanding population in the middle income bracket. We expect the demand for these products and services to receive an increasing share of this growing market.

The quarterly dividend rate on common stock was raised effective with the January 5, 1970 payment from \$0.25 to \$0.27½ a share, equivalent to an annual rate of \$1.10. This is the fifth successive year in which the rate has been increased.

As we move into the new year, INTERCO'S broad diversified program together with its strong fiscal and management resources should assure continued progress. We are actively examining and investigating companies we might acquire and areas into which we might further expand. At year end, acquisitions were nearing completion involving a total combined sales volume of approximately \$25 million which will contribute to the company's growth in 1970 and the years ahead.

Your management is appreciative of the continued confidence of those who invest their money in our company and is grateful to the men and women in our working force for their continued loyalty.

FOR THE BOARD OF DIRECTORS

M. R. Chambers

January 8, 1970 — Chairman of the Board and President

The Year in Review / *Financial*

SALES AND EARNINGS Net sales and earnings in 1969 were the highest in the fifty-eight year history of the company. This was the sixth year in succession in which the results were greater than in the prior year.

Net sales of $706,098,141 were $36,642,106 greater than the net sales of $669,456,035 for the previous year—an increase of 5.5%.

All of the company's major operating groups—Apparel, Department Stores, Footwear—recorded higher sales in the year ended November 30, 1969.

The company's sales volume on a comparative basis is shown in the following:

	1969		1968	
	Sales	%	Sales	%
Apparel	$136,326,743	19	$130,391,056	19
Department Stores	201,426,858	29	172,947,970	26
Footwear	368,344,540	52	366,117,009	55
Total	$706,098,141	100	$669,456,035	100

The department stores group comprised of Central Hardware Company, P. N. Hirsch & Company and Sam Shainberg Company showed the greatest sales gain with an increase of $28.5 million or 16.5%, accounting for 29% of the company's consolidated net sales.

Earnings of $25,417,730 for the year exceeded the prior year's earnings of $25,087,844 by $329,886 or 1.3%. Earnings available for common stock were $22,794,730 compared with $22,426,844 in 1968.

Pre-tax earnings of $49,359,559 exceeded last year's high by $2,596,864 or 5.6%. This record was achieved despite the fact that the tax-free Puerto Rican shoe manufacturing plants made no contribution to earnings in 1969.

Primary earnings per share were $3.14 compared with $3.12 per share in 1968.

The average number of common shares outstanding during the year was 7,268,609 compared with 7,180,071 a year ago—an increase of 1.2%.

The apparel and department stores groups and footwear at retail posted higher earnings in 1969, while footwear at the manufacturing level reflected reduced earnings as mentioned in the President's Message to Stockholders.

Assuming full conversion of outstanding preferred stock and exercise of stock options, fully diluted earnings per share would be $2.69 for 1969 compared with $2.65 in 1968.

The 1969 sales dollar was distributed as follows:

Merchandise, materials and expenses	$439,744,376	62.3%
Employees' pay and benefits	203,674,753	28.8
Taxes (excluding Social Security)	29,347,649	4.2
Depreciation	7,913,633	1.1
Dividends paid	9,675,795	1.4
Remainder used in business	15,741,935	2.2
	$706,098,141	100.0%

FINANCIAL POSITION The consolidated balance sheet at year end presented a strong financial position with working capital reaching a new high of $209,392,014—a ratio of current assets to current liabilities of 3.7 to 1.

Inventories continue under close budgetary control. The increase of $11.1 million in inventories at year end reflected the new retail stores opened during the year and the higher level of sales volume.

Stockholders' equity was $209,737,534 at the end of 1969 compared with the record high of $196,851,940 in 1968. The return on invested capital was 12.8%, slightly less than a year ago but substantially higher than the 4.9% of six years ago, the beginning of the diversification program.

Internally generated funds provided the cash used for the expansion of the company's business in 1969—increased number of operating facilities, inventories, and accounts receivable.

In early 1970, INTERCO INCORPORATED will issue 37,895 additional shares of $100 per share stated value second preferred convertible stock, with a minimum liquidating value of $3,789,500, to the former stockholders of Campus Sweater & Sportswear Company. These additional shares were earned for increased profit performance of the Campus Company for the three year period ended December 31, 1969 as provided in the purchase agreement.

The issuance of this stock has been included in fully diluted earnings per share.

CAPITAL EXPENDITURES Investment in physical properties in 1969 amounted to $11,425,185. This brought expenditures in the last five years to $54 million for the continuing expansion and modernization of the company's manufacturing and distributing facilities and its retail outlets. Depreciation provided $7,913,633 of this expenditure in 1969.

The large new central warehouse and apparel distribution center of Cowden Manufacturing Company at Lexington, Kentucky, which was opened early in the year, was leased under financially advantageous terms.

Certain properties, principally retail locations, used in the operations are provided under various leasing arrangements. The minimum annual rentals on these properties with terms longer than five years are approximately $9,600,000 annually.

Capital improvements in 1970 are forecasted to be $9,000,000 and depreciation is estimated to provide $7,900,000 of this amount.

LONG-TERM DEBT No additional long-term financing was required during the year. The company's long-term debt, less current maturities, totalled $73,288,132, a decrease of $3,789,879 for the year.

The company's principal debt was $48,125,000 with the first annual installment of $1,875,000 payable in November 1970. The debt of one major subsidiary amounted to $12,750,000. Also considered as debt were Industrial Revenue Bonds of $7,880,000, payable in annual installments through 1991.

All other debt, amounting to $4,533,132, is payable in varying amounts through 1993.

At year end, long-term debt represented 26% of the total invested capital compared with 32% six years ago before diversification.

DIVIDENDS The common stock quarterly dividend was raised to $0.27½ from $0.25 a share by the Board of

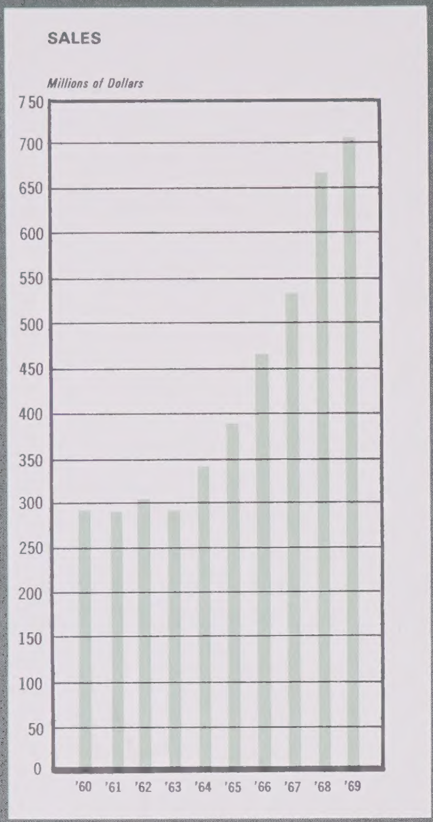
Consolidated Source and Application of Funds 1969

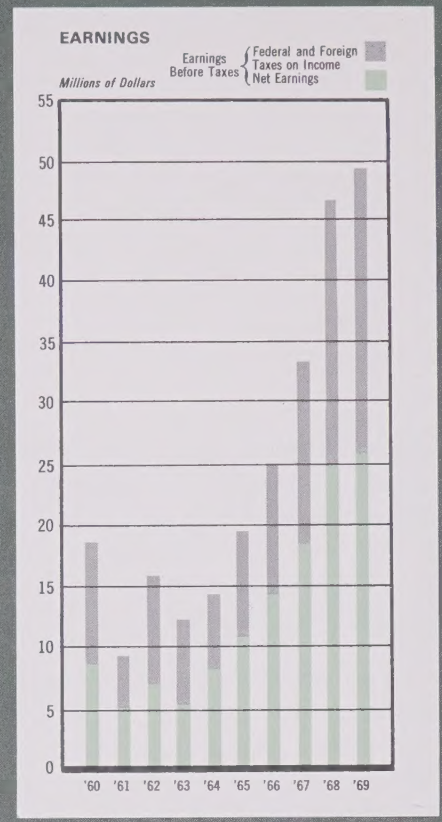
SOURCE OF FUNDS

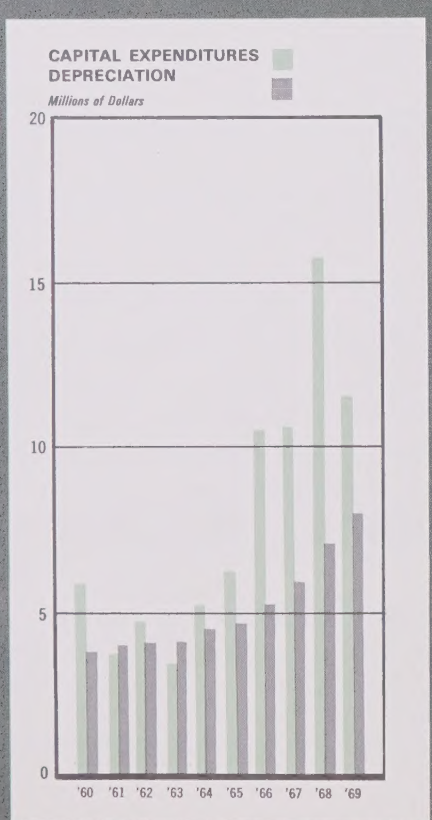
Net earnings for year	$25,417,730
Provision for depreciation	7,913,633
Decrease in loans to customers, secured	401,447
Increase in minority interests	213,871
	$33,946,681

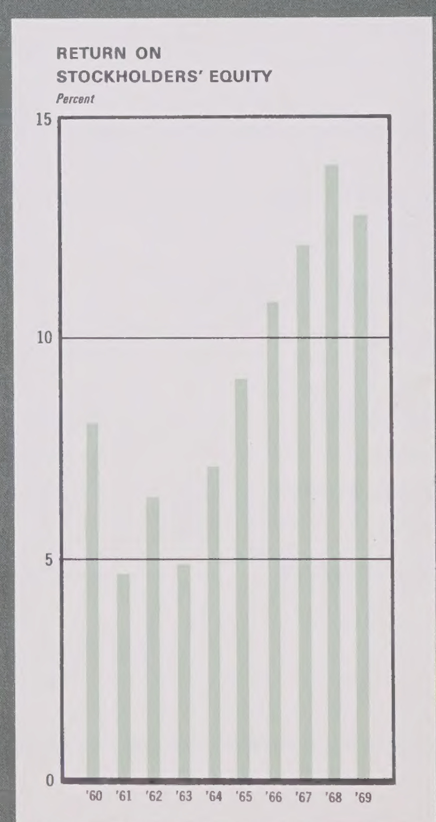
APPLICATION OF FUNDS

Expenditures for properties (net)	$11,425,185
Dividends paid	9,675,795
Decrease in long-term debt	3,789,879
Purchase of treasury stock (net)	2,369,114
Decrease in deferred liabilities	564,222
Miscellaneous	732,508
	28,556,703
Increase in working capital	5,389,978
	$33,946,681


SALES
Millions of Dollars
750
700
650
600
550
500
450
400
350
300
250
200
150
100
50
0
'60 '61 '62 '63 '64 '65 '66 '67 '68 '69


EARNINGS
Earnings Before Taxes
Federal and Foreign Taxes on Income
Net Earnings
Millions of Dollars
55
50
45
40
35
30
25
20
15
10
5
0
'60 '61 '62 '63 '64 '65 '66 '67 '68 '69


CAPITAL EXPENDITURES
DEPRECIATION
Millions of Dollars
20
15
10
5
0
'60 '61 '62 '63 '64 '65 '66 '67 '68 '69


RETURN ON
STOCKHOLDERS' EQUITY
Percent
15
10
5
0
'60 '61 '62 '63 '64 '65 '66 '67 '68 '69

Directors on December 1, 1969, an increase of 10%. This is equivalent to an annual rate of $1.10 per share and became effective with the January 5, 1970 payment to stockholders. The payment of January 5 completed 57 years of continuous dividend payments and was the 235th consecutive dividend to common stockholders. Dividends paid on common stock in 1969 amounted to $7,235,915.

Dividends of $1,577,235 were paid in 1969 to holders of First Preferred Stock. Second Preferred stockholders received $851,906 in dividends during the year.

The company retained for use in the business the remainder of $15,741,935 of net earnings after the payment of all dividends which amounted to $9,675,795.

DIRECTORS AND OFFICERS On March 10, 1969, Ronald L. Aylward, Assistant Secretary, was appointed General Counsel of the company succeeding Richard H. Ely. Mr. Ely was appointed to the newly created position of Senior Counsel in addition to his position as Secretary.

Edward J. Riley, Director of INTERCO INCORPORATED and formerly Executive Vice President of International Shoe Company, was elected a Vice President of INTERCO INCORPORATED on May 5, 1969 and appointed President of International Shoe Company succeeding John D. Winfrey, Vice President and Director, who resigned.

Harold M. Florsheim, Vice President and Director of INTERCO INCORPORATED and Chairman of the Board of The Florsheim Shoe Company, retired on June 20, 1969 after fifty years with The Florsheim Shoe Company. Under his dynamic leadership, The Florsheim Shoe Company has become the most highly respected name in the shoe industry. John K. Riedy, Vice President and Director of INTERCO INCORPORATED, has assumed Mr. Florsheim's duties as Chief Executive Officer. Mr. Riedy, who has been with The Florsheim Shoe Company for more than thirty-five years, was appointed President and Chief Operating Officer of that company in June 1966.

William J. Banks, Financial Vice President and Director, will retire in March 1970. Mr. Banks has been associated with the company for forty-seven years—all of his business life. His ability, loyalty and dedication have resulted in outstanding contributions to the company. Mr. Banks has also been active in civic affairs and is a recognized leader in the business community.

On October 13, 1969, William L. Edwards, Jr. was elected a Vice President of the company and will succeed William J. Banks as Financial Vice President. Mr. Edwards comes to the company from UMC Industries Inc. where he was a member of the Board of Directors, Vice President of Finance and Treasurer.

EMPLOYEES During 1969, the company and its subsidiaries paid $203,674,753 to employees directly as salaries and wages or indirectly through various company benefit programs.

INTERCO INCORPORATED maintains a sound program of benefits for its employees. The program includes life insurance coverage, health and accident benefits, and retirement programs.

Health and disability payments of $2.8 million were made to employees and their dependents, and beneficiaries of deceased employees received $1.0 million in life insurance proceeds. Payments to retired employees amounted to $2.3 million.

The year 1969 was another year of excellent employee relations which the company enjoys with its capable force of 37,600 men and women.

Interco Incorporated
PRINCIPAL OPERATING FACILITIES

Apparel Manufacturing Plants	25
Department Stores	323
Shoe Manufacturing Plants	46
Retail Shoe Stores and Departments	852
Shoe Supply and Service Plants	12
Finished Goods Warehouses	20
	1,278

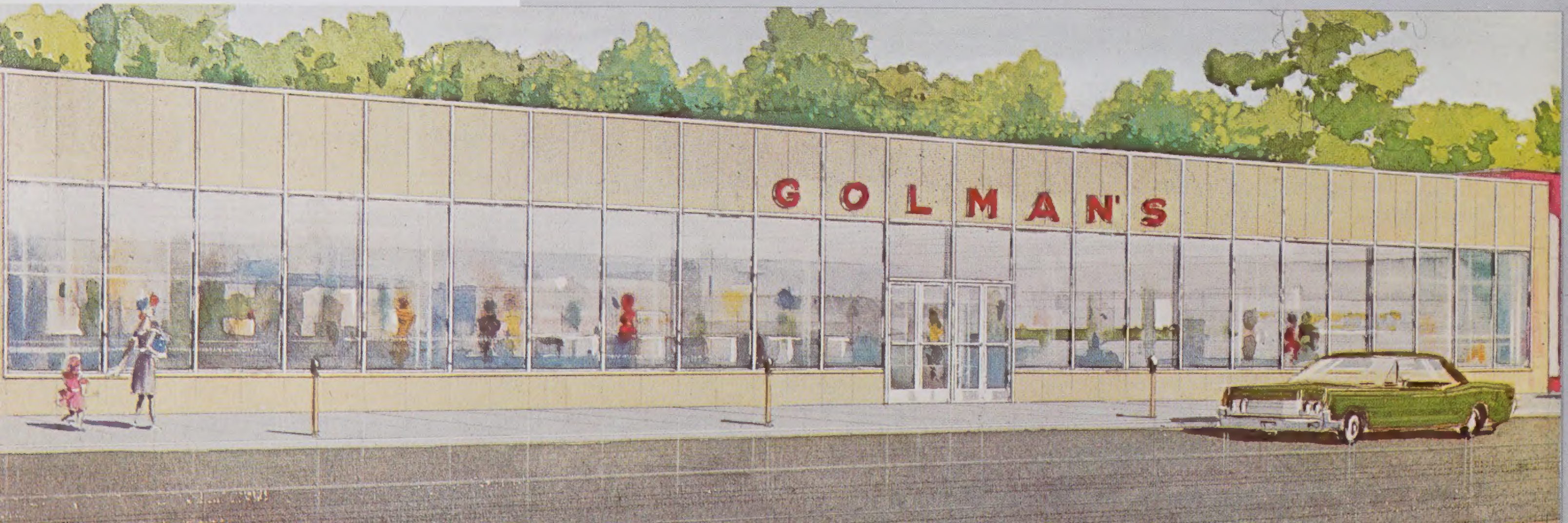
EXPANSION

The Year in Review / *Operations*

Twenty-one luxurious new Thayer McNeil Women's Shoe Salons were added by The Florsheim Shoe Company in 1969.

Wallace Footwear Limited, Montreal, Canada — manufacturer of women's high fashion footwear—acquired by Savage Shoes Limited in December 1969.

P. N. Hirsch & Company's attractive new suburban St. Louis store to be opened in March 1970, operating as part of the Golman's chain.



IN 1969

Illustrated here are a few of the facilities added during the year which will contribute to INTERCO INCORPORATED growth in 1970 and the years ahead.

One of the forty new Florsheim Men's Shoe Shops which opened in all areas of the country during 1969.

One of the eight beautiful new leased shoe departments opened in Volk's of Dallas—part of International Retail Shoe Company.

Central Hardware Company's new supermarket type hardware and lumber store to be opened in March 1970—the ninth store in the St. Louis area.

Sam Shainberg Company opened its 100th store during 1969—above is a new Shainberg's in Baton Rouge, Louisiana.

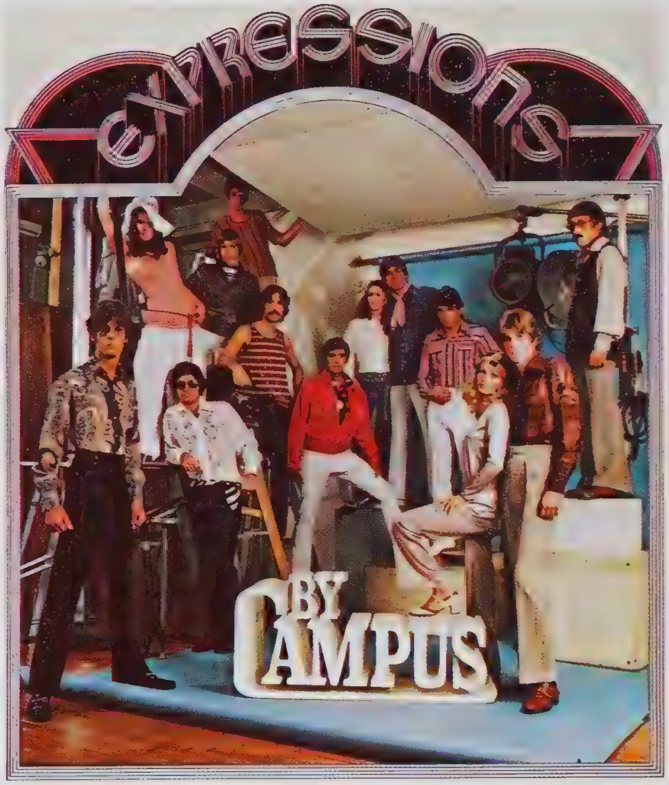
Section of Cowden's large new Lexington, Kentucky customer distribution center which became fully operational in 1969.

Apparel

Campus Sweater & Sportswear Company

Growth, expansion and refinement of facilities marked the year for Campus Sweater & Sportswear Company. Campus, America's largest manufacturer of sweaters and sportswear for men and boys, achieved a record performance in 1969.

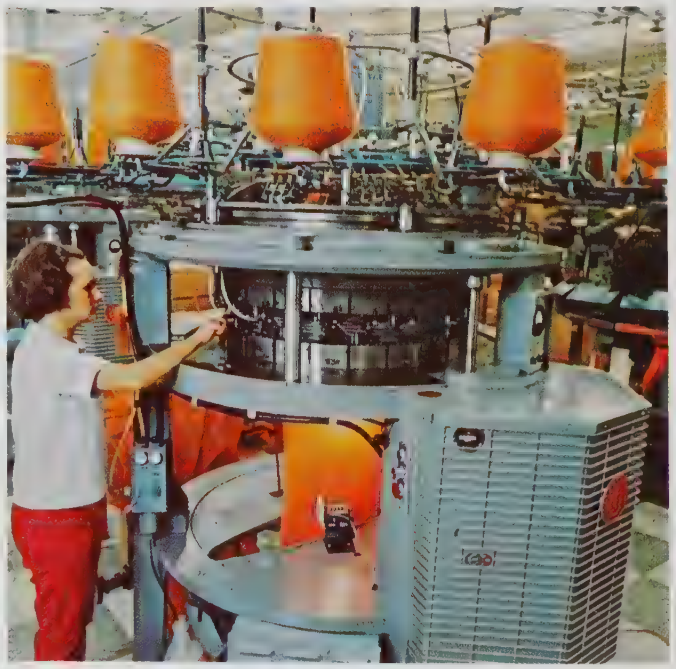
During the year, additions totalling 50,000 square feet were added to manufacturing facilities in Pennsylvania and South Carolina. A 230,000 square foot addition was completed at Campus' Chester, South Carolina Distribution Center, making a total of one-half million square feet at this location. A facility was also established for the inspection and packaging of imported goods.



One of many advertisements in the national advertising program of the Campus Company.

Department heads and stylists of Campus selecting outerwear jacket fabrics at new Production Planning Center in New York City.

Cones of colorful yarn on circular knitting machines in operation at Campus' Union, South Carolina sweater mill.



Male fashions, currently the most dynamic part of the apparel industry, are the special province of Campus. Throughout its 48 year history, Campus has been attuned to the exciting changes in style and color which today are the most important features of the men's wear industry. The company's highly experienced merchandising and styling personnel with the aid of sophisticated computer facilities and other modern techniques are constantly improving their ability to adapt to rapid style changes.

Campus has one of the broadest product ranges in the apparel industry—over 3,000 styles each year—and the company is prepared to offer almost every item in the male wardrobe in the latest style and color.

To the thousands of retailers it serves, Campus is a major source of well-styled products offered at outstanding values.

Cowden Manufacturing Company, manufacturer of men's and boys' work and play clothing, continued its growth pattern in 1969 as it has in each of its five years of affiliation with INTERCO INCORPORATED.

The company took several significant steps forward during the year.

The past year saw the completion of a new customer distribution center in Lexington, Kentucky near the company's general offices. This new product distribution center with more than 300,000 square feet of floor space is completely air-conditioned, utilizing the latest in automated materials handling equipment and techniques. The consolidation of the company's Kentucky, Missouri, and California shipping facilities into this new warehouse has now been accomplished.

The consolidation of all warehousing and distribution operations within this large single unit was necessitated by the broader line of Cowden products and the continuation of prompt efficient service to the customer.

Cowden opened its tenth apparel manufacturing plant during the year in Central City, Kentucky to satisfy the increased customer demand for its products. The plant is established in temporary quarters and is already operating at maximum efficiency with an adequate supply of capable labor. If this plant proves to be as successful as the company anticipates, a modern new factory building will be erected.

Finishing press operation in C.P.O. shirt section of Cowden's Pikeville, Tennessee plant.

Cowden Manufacturing Company is continuing to direct its sales efforts toward large national chains, mail order houses and carefully selected discount and regional chains. These new accounts together with the established customers that the company has been serving over the years will enable the Cowden Company to build securely for the future.

Display of Cowden's growing line of colorful work and play clothing for men and boys.

Department Stores

Lin-brook Hardware Company—base of operations for Central Hardware Company in Anaheim, California.

Nineteen Sixty-Nine was a record year for Central Hardware Company in both sales and earnings with each of the company's supermarket type hardware and lumber stores contributing to the record performance.

The two new metropolitan area stores, which opened in late 1968 at St. Charles, Missouri and Alton, Illinois, were ahead of projection in their first year of operation. The St. Louis market will be expanded once again in March 1970 with the opening of a new 70,000 square foot store in Ballwin, Missouri. Other sites are under consideration for further expansion in this area.

Central's move to Indianapolis in 1968, its first outside St. Louis, has proven very successful and customer acceptance after one year's operation has exceeded forecasts.

In August, Central made another major move to expand its operations by acquiring Lin-brook Hardware Company of Anaheim, California with volume exceeding $5 million. This long-established business affords a springboard from which to expand into a group of stores in the rapidly growing southern California market. It is expected that this new market will bring to Central the same prominence it has enjoyed for many years in St. Louis and now enjoys in Indianapolis.

Witte Hardware Corporation, Central's wholesale subsidiary, continues to expand its XL retail hardware group of more than 250 independently owned stores and is entering new markets with company-owned locations. Five company-owned XL stores were added in 1969 and construction will begin shortly on five additional stores.

All divisions of Central Hardware Company—Central, Lin-brook, and XL—will continue to emphasize complete assortments of items for the "Do-It-Yourself" homeowner, and will continue to expand its Home—Modernization and Lumber Departments.

Management believes this division has unlimited opportunities for expansion.

Central Hardware's new St. Charles, Missouri store—completed its first year of operation.

Record sales and earnings marked the continued progress of P. N. Hirsch & Company exceeding the record established in 1968 by a substantial margin.

The company is comprised of six operating management groups. At year end, the midwest group under the name "P. N. Hirsch & Company" was operating 152 stores; "Hammel's" with two stores in Mobile; "Thornton's" in Abilene, Texas—three stores; "Golman's" in Missouri—two stores; and the northwest group was operating a total of 46 stores under various names.

A section of new P. N. Hirsch store located in Elkhardt, Indiana.

During the year P. N. Hirsch & Company upgraded many of its existing stores by moving into more modern and larger units. The acquisition of the two "Golman's" stores in Festus and Flat River, Missouri, marked the entry of the company into the higher price brand name market in the midwest. Steps have already been taken to increase the number of units operating under the Golman name.

The successful management team of P. N. Hirsch & Company which has created the momentum for the growth of the company since its inception in the early 1930's and guided its merger with INTERCO, remains intact and at the helm with continued enthusiasm. Commitments have been entered into for eight new stores to be opened in early 1970. Negotiations are presently in progress for a number of additional units planned for openings later in the year and early 1971.

Management is optimistic about the future and anticipates another successful year in 1970.

The White House, Santa Rosa, California one of 46 stores operated by P. N. Hirsch & Company in the northwestern section of the country.

The 100th unit of Sam Shainberg Company was opened in November in Jackson, Mississippi in the Westland Plaza Shopping Center.

The Shainberg department store chain, operating in six southern and southeastern states, now is comprised of forty-five Shainberg's Stores which feature merchandise for the entire family, and fifty-five Kent's Stores which are self-service type variety stores offering clothing and related items appealing to bargain conscious customers. An additional six stores are scheduled to open early in 1970 with concentration in the larger populated areas. Plans include additional stores in Birmingham, Baton Rouge, New Orleans, Memphis, and Nashville.

During the year, the company continued its effective investment in managerial training to accommodate its growth plans. A new fully automated merchandising and inventory control system started sometime ago is now maturing and reflecting increased efficiency.

At year end, the company was almost a full year ahead in its four-year expansion plan and has recently adopted a new more accelerated long-range growth program to start in 1970.

Kent's store in Jackson Square Shopping Center, Jackson, Mississippi opened in fall of 1969.

Footwear

The Florsheim Shoe Company made another outstanding contribution to the sales and earnings of INTERCO INCORPORATED in the year 1969.

Manufacturing facilities were expanded during the year with the opening of five shoe plants to satisfy the increased demand for Florsheim men's and women's shoes. These plants include two for the production of men's shoes and three plants for women's shoes.

Retail units continue to be expanded at a rapid pace. During 1969, sixty-one additional units were opened and at year end there were 384 stores and leased shoe departments in operation. For the first time, Florsheim Men's Shops and Thayer McNeil Women's Salons were opened in the same shopping center, reflecting the increased demand for both Florsheim men's and women's shoes in the growing suburban shopping center developments in all sections of the country.

Negotiations are underway to license outstanding foreign shoe manufacturers for the production and sale of Florsheim shoes abroad. The same high standards of quality presently applied to the manufacture of Florsheim shoes will be extended to those foreign companies chosen to operate under license agreements.

"The Dante"—one of the many high quality styles of men's footwear offered by The Florsheim Shoe Company.

The company's Australian subsidiary, Julius Marlow Holdings, Limited, outstanding manufacturer of men's quality shoes in that country, achieved the highest sales volume and profits in its forty-two year history.

The Florsheim Shoe Company looks forward to the decade of the Seventies with the same enthusiasm and promise of continued growth which it has experienced in its almost eighty years as the leader in the manufacture of fine quality footwear.

Thayer McNeil Shoe Salon for women—West County Shopping Center, Des Peres, Missouri.

International Retail Shoe Company

1969 was a challenging year in the retail shoe business, marked with dramatic style changes and rising costs. Despite these factors, International Retail Shoe Company again achieved a record high in operating results for the eighth consecutive year. The better performance is attributed to a sound program of expansion, coupled with steady improvement in the results of established units.

A number of new retail outlets have been opened throughout the country, including both individual units in major shopping centers and leased departments in such fine stores as Volk's in Dallas and Jelleff's in Washington, D. C. In addition, the division has opened special import sections in many of its stores and departments, and youth-oriented shops to keep pace with the growth in the young market.

1970 should be another exciting year for International Retail Shoe Company. Twenty-two additional leases have been signed, with leases for a number of other locations pending. Average volume per unit is at an all-time high, and inventories are in excellent condition. It is anticipated that sales and, more importantly,—profits—will show continued improvement in the new year.

International Retail Shoe Company's leased shoe department, one of six in Sage-Allen Stores, located in various Connecticut communities.

International Shoe Company

The sales and earnings of International Shoe Company were adversely affected in 1969 by—imports of foreign-made footwear—softness which prevailed industry wide in women's shoes—and sharply reduced demand for hand sewn shoes produced in its Puerto Rican plants.

1969 was a year of consolidating and strengthening internal operations. The program of eliminating unprofitable operations and product lines has been substantially completed, and the year end found this division in a sound inventory position.

A few of the wide variety of styles of footwear for men, women and children produced by International Shoe Company.

Footwear

Responding to the increasing interest of the consumer in quality and style, the company continued to place emphasis on timely fashion in all segments of its product line. Areas of the retail shoe market which have tended to be very stable historically have yielded to this renewed interest in style and fashion and this interest is expected to continue and to grow.

Another fundamental aspect of the shoe business which received prime emphasis was quality of product. From the design stages, through material specification and manufacturing methods and techniques, quality has been re-emphasized as a major consideration. Retailer comments indicate that the company has succeeded in reaching its goal of providing superior style and quality at popular-price levels.

International Shoe Company is alert to conditions which are currently affecting the shoe manufacturing industry and is confident of maintaining and improving its position.

Savage Shoes Limited achieved increases in sales volume and profits in 1969, in the face of a generally slow and uncertain Canadian shoe market.

The men's manufacturing division which produces Florsheim and McHale brands of high quality men's shoes reported higher sales and earnings for the year. The juvenile division maintained sales volume with increased earnings. The women's division was adversely affected by the general slowness and uncertainty in the popular-priced women's shoe field.

Denny Stewart Limited with enlarged facilities for the manufacture of women's Florsheim shoes, together with the continuing growth of the Denny Stewart line, produced another year of record results.

Shoe manufacturing operations were expanded into a new market for Savage with the purchase in December 1969 of Wallace Footwear (1962) Ltd. of Montreal, a manufacturer of higher priced fashion footwear for women.

The retail operations of London Shoe Company Limited were augmented by new store openings across Canada, the acquisition of three stores in the Province of Ontario, and nine stores in the Maritime Provinces. New store openings of Florsheim Shops for men and Barclay Stores for women, are planned for 1970 in prime shopping centers and downtown locations in the major cities of Canada.

Mayfair Shoe Salons Limited, the women's fashion shoe retail division, also expanded with the opening of two new salons in Montreal and one in Toronto under the BAZAZZ name with prices below the level of Mayfair Salons. New Mayfair Salons were opened in Ottawa, and in the Yorkdale Regional Shopping Center in Toronto. Further expansion is planned for fiscal 1970.

One of two Owen's and Elm's women's stores, Toronto, Ontario, Canada, added by Savage Shoes Limited during the year.

Savage Shoes Limited diversified outside the shoe industry in December 1969 with the acquisition of Budmark Converters Co. Ltd. and Dial Fabrics Ltd. These fine companies located in Montreal are outstanding leaders in fabric design and marketing, serving the garment and apparel industries of Canada.

The newly acquired companies, which add to the scope of INTERCO'S Canadian business, are led by aggressive and experienced management.

Continued internal growth and the new acquisitions combine to assure progress of Savage Shoes Limited in 1970.

Savage Shoes Limited's first move outside the shoe industry—Budmark Converters Co., Ltd., Montreal, a leading fabric supplier of the Canadian apparel industry.

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Consolidated Financial Statements

CONSOLIDATED BALANCE SHEET

Assets

November 30,	1969	1968
Current assets:		
Cash, including certificates of deposit	$ 23,523,880	$ 24,256,519
Receivables, less allowance for cash discounts and doubtful accounts, $2,508,933 ($2,371,942 in 1968)	106,006,024	101,870,346
Inventories:		
Finished products and other merchandise	117,704,952	107,172,310
Raw materials and work in process	36,868,166	36,305,378
	154,573,118	143,477,688
Prepaid expenses	1,928,584	1,619,188
Total current assets	286,031,606	271,223,741
Other assets:		
Loans to customers, secured	1,405,776	1,807,223
Future Federal income tax benefits	2,068,154	1,853,937
Excess of investment over equity in consolidated subsidiaries at acquisition	6,935,785	6,947,706
Sundry investments and other assets	2,977,679	2,934,694
Total other assets	13,387,394	13,543,560
Physical properties, at cost:		
Land	4,580,801	4,933,202
Buildings and structures	68,383,246	62,984,697
Machinery and equipment	71,506,154	70,428,945
	144,470,201	138,346,844
Less accumulated depreciation	71,776,687	69,164,882
Net physical properties	72,693,514	69,181,962
	$372,112,514	$353,949,263

See accompanying notes to consolidated financial statements.

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Liabilities and Stockholders' Equity

November 30,	1969	1968
Current liabilities:		
Notes payable to banks	$ 5,039,124	$ 3,383,875
Current maturities of long-term debt	4,105,117	2,205,196
Accounts payable and accrued expenses	56,062,381	50,904,284
Federal and foreign income taxes	10,949,877	10,564,912
Deferred Federal income taxes	483,093	163,438
Total current liabilities	76,639,592	67,221,705
Other liabilities:		
Deferred compensation and other deferred liabilities	8,687,049	9,251,271
Long-term debt, less current maturities	73,288,132	77,078,011
Minority interests in subsidiaries	3,760,207	3,546,336
Total other liabilities	85,735,388	89,875,618
Stockholders' equity:		
Preferred stock, at stated and liquidating value:		
First preferred — Series A	15,799,000	16,609,900
First preferred — Series B	15,199,480	15,445,360
Second preferred — Series C	16,238,900	16,214,600
	47,237,380	48,269,860
Common stock, at stated value	56,556,255	56,041,035
Capital surplus	1,525,351	644,365
Retained earnings	111,425,513	96,534,531
	216,744,499	201,489,791
Less common stock in treasury, at cost	7,006,965	4,637,851
Total stockholders' equity	209,737,534	196,851,940
	$372,112,514	$353,949,263

Consolidated Statement of Earnings

Years Ended November 30,	1969	1968
Sales and other income:		
Net sales	$706,098,141	$669,456,035
Other income, net	6,049,736	5,013,870
	712,147,877	674,469,905
Deductions:		
Cost of sales	492,334,517	472,380,461
Selling, general and administrative expenses	165,063,119	150,560,132
Interest expense	5,390,682	4,766,617
	662,788,318	627,707,210
Earnings before Federal and foreign income taxes	49,359,559	46,762,695
Federal and foreign income taxes:		
Current	23,325,025	21,169,830
Deferred—Federal	105,438	(92,513)
	23,430,463	21,077,317
	25,929,096	25,685,378
Minority interests	511,366	597,534
Net earnings	$ 25,417,730	$ 25,087,844
Per share of common stock:		
Primary earnings	$3.14	$3.12
Fully diluted earnings	$2.69	$2.65

See accompanying notes to consolidated financial statements.

Consolidated Statement of Stockholders' Equity

YEAR ENDED NOVEMBER 30, 1969

	Preferred Stock	Common Stock Issued	Common Stock In Treasury	Capital Surplus	Retained Earnings	Total
Balance at beginning of year	$48,269,860	$56,041,035	$(4,637,851)	$644,365	$ 96,534,531	$196,851,940
Net earnings					25,417,730	25,417,730
Cash dividends:						
Preferred stock					(2,429,141)	(2,429,141)
Common stock					(7,235,915)	(7,235,915)
Paid by pooled company					(10,739)	(10,739)
Acquisition of 121,142 shares of company's common stock			(4,907,788)			(4,907,788)
Issuance of 82,969 treasury shares for pooled companies and 2,250 treasury shares for acquisition of net assets			1,918,054	144,915	(850,953)	1,212,016
Conversion of preferred stock:						
Series A —8,109 shares	(810,900)	264,278		545,874		(748)
Series B —6,417 shares	(256,680)	96,255		160,425		
Stock options exercised:						
Series B —270 shares	10,800			(2,314)		8,486
Series C —243 shares	24,300			(4,114)		20,186
Common—46,625 shares		154,687	620,620	36,200		811,507
Balance at end of year	$47,237,380	$56,556,255	$(7,006,965)	$1,525,351	$111,425,513	$209,737,534

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

November 30, 1969

Principles of Consolidation—All subsidiaries with a 51% or greater ownership are consolidated in the accompanying financial statements. During 1969, the company acquired all the outstanding stock of several companies, and in connection therewith, issued a total of 82,969 treasury common shares. Although these acquisitions have been accounted for as poolings of interests, prior year figures have not been restated due to immateriality of the effect on the financial statements. Subsequent to November 30, 1969, certain companies were acquired for cash and 205,482 shares of common stock, with additional shares to be issued based upon profit performance. No effect has been given to such acquisitions in the accompanying financial statements, since they are not considered material.

Inventories—Approximately 90% of the inventories are priced at the lower of cost (first-in, first-out) or replacement market. The remainder of the inventories are priced at cost (last-in, first-out) which is below replacement market.

Federal Income Taxes—Deferred compensation, depreciation, profits on installment sales and certain other items are recognized for income tax purposes in years other than the years in which they are reported in the financial statements. The tax effects of these timing differences are shown in the financial statements as Future Federal income tax benefits and Deferred Federal income taxes. Certain 1968 accounts have been reclassified to reflect similar treatment.

Physical Properties—For financial reporting purposes, depreciation of physical properties aggregating $7,913,633 in 1969 and $7,007,667 in 1968, is computed generally on a straight-line basis over the estimated useful life of each class of asset.

Long-Term Debt—Long-term debt includes the following:

	1969	1968
4⅝% promissory installment notes, payable $1,875,000 annually, 1970-1989, and balance in 1990	$50,000,000	$50,000,000
6% promissory installment notes of subsidiary, payable $750,000 annually, 1970-1975, $1,250,000 annually, 1976-1979, and balance in 1980	13,500,000	14,250,000
4¾% obligation under long-term lease, payable in annual installments increasing from $215,000 in 1970 to $565,000 in 1991	8,095,000	8,300,000
Other debt at 4½% to 9% interest rates, payable in varying amounts through 1993	5,798,249	6,733,207
	77,393,249	79,283,207
Less current maturities	4,105,117	2,205,196
	$73,288,132	$77,078,011

The 4⅝% note agreement restricts retained earnings of $43,810,400 as to the payment of cash dividends on capital stock and the purchase, redemption or retirement of capital stock. The agreement also provides that no such payments be made unless consolidated working capital shall be at least $80,000,000.

Preferred Stock—The company's preferred stock is issuable in series. Authorized preferred stock consists of 577,060 shares of first preferred (Series A and B) and 1,000,000 shares of second preferred (Series C) without par value. Such stock is summarized as follows:

Series A—$4.75 cumulative, with stated and involuntary liquidating value of $100 per share; issued 157,990 shares (166,099 in 1968); callable beginning in 1974 at $104.75, decreasing to $100.00 in 1981; convertible into 4.3478 shares of common stock.

Series B—$2.10 cumulative, with stated and involuntary liquidating value of $40 per share; issued 379,987 shares (386,134 in 1968); callable beginning in 1975 at $42.10, decreasing to $40.00 in 1985; convertible into 2 shares of common stock.

Series C—$5.25 cumulative, with stated and involuntary liquidating value of $100 per share; issued 162,389 shares (162,146 in 1968); callable beginning in 1975 at $105.25, decreasing to $100.00 in 1985; convertible after March 31, 1970 into 3.0534 shares of common stock.

Former shareholders of Campus Sweater & Sportswear Company are to receive 37,895 shares of Series C preferred stock plus options for 1,644 additional shares, based upon earnings of Campus through December 31, 1969. Also, options are outstanding at November 30, 1969 for 4,767 shares of Series B and 7,049 shares of Series C preferred stock at an average price of $33.65 and $67.35, of which 4,180 and 3,403 shares, respectively, are exercisable.

Common Stock—The company's common stock consists of 15,000,000 shares authorized without par value, of which 7,540,834 shares were issued at November 30, 1969 (7,472,138 in 1968), including 281,595 shares (271,672 in 1968) in treasury. At November 30, 1969, 2,440,258 shares of common stock are reserved for conversion of preferred stock and exercise of stock options.

Under various stock option plans, certain key employees may purchase shares of common stock at prices equal to market value on the dates the options were granted. The options become exercisable in installments and expire in five years. Stock option activity during the year is summarized as follows:

	Shares	Average Price
Options outstanding at beginning of year	298,800	$26.71
Granted	11,250	35.37
Exercised	(46,625)	17.40
Cancelled	(3,775)	33.07
Options outstanding at end of year (of which 145,475 shares are exercisable)	259,650	$28.67

Commitments and Contingent Liabilities—The company and its subsidiaries have pension plans covering substantially all employees. The company's policy with respect to principal pension plans is to fund pension costs accrued. Total pension expense for the year was $4,760,000, which includes, as to certain of the plans, amortization of prior service costs over periods ranging from 20 to 40 years. The actuarially computed value of vested benefits as of latest valuation dates of the plans exceed the total of the pension funds by approximately $4,500,000.

Excluding rental payments on the capitalized long-term lease, minimum annual rentals on real properties leased for terms of more than five years approximate $9,600,000, with additional rentals payable under certain leases based on a percentage of sales in excess of specified minimums. Total rent expense under such leases as well as short-term leases was $11,760,000 in 1969. The companies have also guaranteed leases of retail outlets of customers aggregating at November 30, 1969, $3,400,000, based upon minimum rentals.

Earnings Per Share of Common Stock—Primary earnings per share is based on the weighted average number of common shares outstanding during the year with net earnings reduced by preferred stock dividend requirements. In computing fully diluted earnings per share, the weighted average number of common shares outstanding was increased by the number of common shares which would have been issued if conversion of preferred stock, including those additional shares issuable to Campus shareholders, had occurred at the beginning of the year. This calculation also assumes the issuance of additional common shares on exercise of stock options with the proceeds used to acquire treasury shares at the average market price.

PEAT, MARWICK, MITCHELL & CO.
Certified Public Accountants
901 Washington Avenue
St. Louis, Missouri 63101

THE BOARD OF DIRECTORS AND STOCKHOLDERS
INTERCO INCORPORATED:

We have examined the consolidated balance sheet of INTERCO INCORPORATED and subsidiaries as of November 30, 1969 and the related statements of earnings and stockholders' equity for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such consolidated financial statements present fairly the financial position of INTERCO INCORPORATED and subsidiaries at November 30, 1969 and the results of their operations and changes in stockholders' equity for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

January 8, 1970

Peat, Marwick, Mitchell & Co.

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INCORPORATED

TEN YEAR CONSOLIDATED FINANCIAL REVIEW

YEARS

	1969	1968	1967
FOR THE YEAR			
Net Sales	$706,098	$669,456	$536,187
Earnings Before Taxes	49,360	46,763	33,360
Federal and Foreign Income Taxes	23,430	21,077	14,112
Net Earnings (2)	25,418	25,088	18,627
Dividends Paid on Common Stock	7,236	6,458	5,685
Dividends Paid on Preferred Stock	2,429	2,087	991
Percentage of Net Earnings to Sales	3.6%	3.7%	3.5%
AT YEAR END			
Current Assets	$286,032	$271,224	$215,900
Current Liabilities	76,640	67,222	47,841
Working Capital	209,392	204,002	168,059
Physical Properties (Net)	72,694	69,182	59,409
Other Assets and Liabilities (Net)	4,700	4,292	5,571
Long-term Debt	73,288	77,078	64,994
Minority Interests in Subsidiaries	3,760	3,546	3,650
Stockholders' Equity	$209,738	$196,852	$164,395
Shares of Common Stock Outstanding	7,259,239	7,200,466	7,148,434
PER SHARE OF COMMON STOCK			
Primary Earnings (3)	$ 3.14	$ 3.12	$ 2.39
Fully Diluted Earnings (3)	2.69	2.65	2.13
Dividends	1.00	0.90	0.80

(1) Figures for companies acquired on a pooling of interests basis have been included above from the beginning of the fiscal year of their affiliation with INTERCO INCORPORATED. Shown below are the comparative net sales and net earnings for the years 1965 through 1968 which have been restated to include pooled companies for years prior to their affiliation, except for those companies acquired in 1969 whose prior years' figures were immaterial:

	(IN THOUSANDS) Net Sales	Net Earnings	Earnings Per Share of Common Stock Primary	Fully Diluted
1968	$669,456	$25,088	$3.12	$2.65
1967	617,760	20,551	2.51	2.19
1966	591,794	16,976	2.02	1.82
1965	532,154	15,327	1.77	1.63

NDED NOVEMBER 30

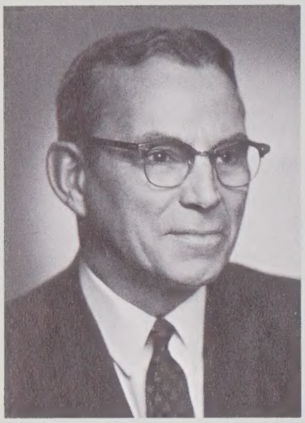
1966	1965	1964	1963	1962	1961	1960
(DOLLARS IN THOUSANDS)						
$469,132	$391,877	$345,448	$295,615	$303,182	$294,275	$296,470
25,068	19,545	14,397	12,302	16,008	9,369	18,855
10,035	8,100	5,518	6,528	8,616	4,081	10,101
14,598	10,879	8,441	5,493	7,071	5,191	8,867
4,957	4,292	4,118	4,004	4,050	6,116	6,113
—	—	—	—	—	—	—
3.1%	2.8%	2.4%	1.9%	2.3%	1.8%	3.0%
(DOLLARS IN THOUSANDS)						
$204,958	$170,815	$162,045	$148,819	$149,007	$146,793	$149,398
58,874	38,725	34,750	29,539	30,291	27,626	28,532
146,084	132,090	127,295	119,280	118,716	119,167	120,866
48,931	42,614	41,019	40,318	40,976	40,247	40,538
8,665	7,729	7,268	6,385	7,669	8,658	9,342
57,833	53,645	52,626	52,229	54,571	56,820	58,585
3,323	3,233	3,304	2,584	1,481	1,438	1,395
$142,524	$125,555	$119,652	$111,170	$111,309	$109,814	$110,766
7,065,478	7,149,748	7,170,010	6,562,554	6,682,940	6,794,444	6,796,044
(IN DOLLARS)						
$ 1.95	$ 1.52	$ 1.22	$ 0.82	$ 1.05	$ 0.76	$ 1.31
1.86	1.50	—	—	—	—	—
0.70	0.60	0.60	0.60	0.60	0.90	0.90

(2) After adjustments for minority interests.

(3) Refer to Earnings Per Share of Common Stock in Notes to Consolidated Financial Statements.

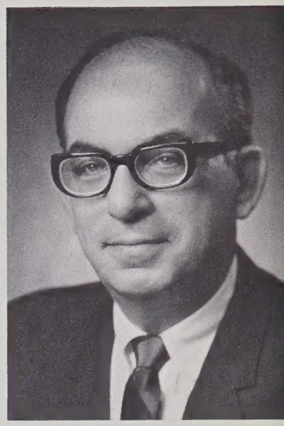
(4) Common shares and per share figures reflect two-for-one stock split, effective March 14, 1968.

Directors


WILLIAM J. BANKS


DAVID R. CALHOUN


MAURICE R. CHAMBERS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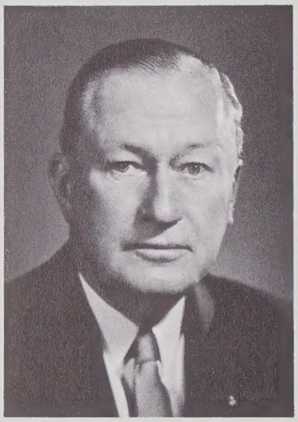
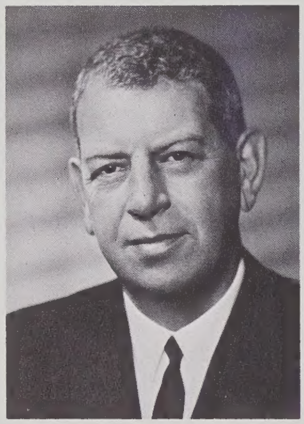
RICHARD H. ELY


J. RUSSELL FORGAN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PHILIP N. HIRSCH


JOHN S. MALCOLM


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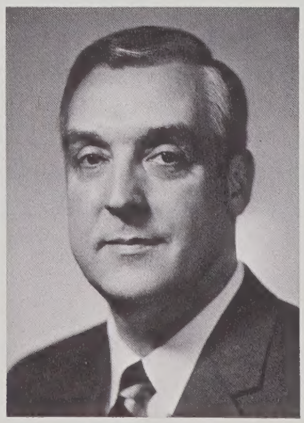
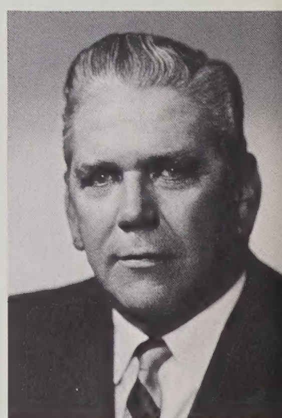
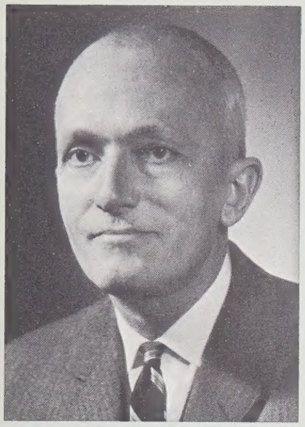
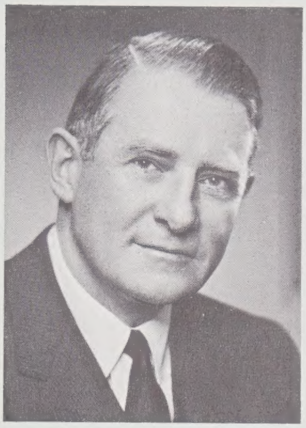

JOHN K. RIEDY

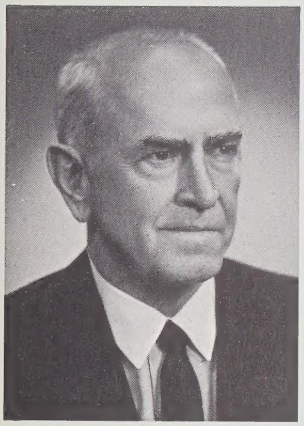

EDWARD J. RILEY



WEBSTER L. COWDEN

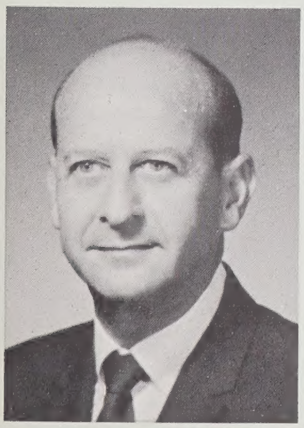


KENTON R. CRAVENS



J. LEE JOHNSON

SAMUEL S. KAUFMAN



HERBERT SHAINBERG

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RICHARD H. ELY
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  Glore Forgan, Wm. R. Staats Inc.
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RONALD L. AYLWARD, Assistant Secretary
DUANE L. STARR, Assistant Treasurer
JOHN R. METCALF, Assistant Comptroller

General Counsel

RONALD L. AYLWARD

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Mercantile Trust Company National Association
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The First National Bank of Memphis
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